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Business ethics: An overview (with reference to case study)

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Abstract

Fast growing world always create a sense of competition among the viewers. This thirst of getting more and more has made us “a machine” which has nothing to do with the elements like right and wrong. It seems ethics are disappearing very fast, and business too is being unethical these days. The study of ethics has become an important ingredient in recent years. Ethics is the theory or system of moral values. Ethics reflects a society’s notions about the rightness or wrongness of an act. Ethics also involves the evaluation and application of certain moral values that a society or culture has come to accept as its norms. The main objective of this study is to understand the concept and importance of ethics in business. The data for this study has been collected through books, journals newspaper, articles and websites. Every business organisation should follow the basic elements of ethics, and then only a strong organisation can be created.

Keywords: Business Ethics, Insider Trading, Moral, Stakeholders.

Introduction

The study of ethics has become an important ingredient in recent years. This is because of ethical issues that have come to the forefront as a result of many well-known failures of corporate. The fraudulent activities of these corporate have resulted in the defrauding of stockholders, consumers, employees, creditors and governments to varying degrees. It has therefore become important that everyone should imbibe ethical values. Ethics reflects a society’s notions about the rightness or wrongness of an act. It is generally described as a set of principles or moral conduct. Business ethics, therefore, is a sum total of principles and code of conduct businessmen are expected to follow in their dealings with their fellowmen such as stockholders, employees, customers, creditors, and comply with to enact the laws of the land and to protect all these stakeholders. The word ‘ethics’ is derived from the Greek word ethikos meaning custom or character. The field of ethics involves systematizing, defending, and recommending concepts of right and wrong behaviour. Ethics is a mass of moral principles or set of values about what is wrong or right, true or false, fair or unfair, proper or improper, what is ethical and what is unethical. Ethics is a branch of philosophy and is considered a normative science because it is considered with the norms of human conduct, as distinguished from formal sciences.

What Is Business Ethics?

Business ethics is the application of general ethical ideas to business behaviour. Ethical business behaviour is expected by the public, it facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity, reduces criminal penalties from public authorities and regulators, protects business against unscrupulous employees and competitors.

Need and Objectives of Business Ethics

Ethics is closely related to trust. Most people would agree on the fact that to develop trust, behaviour must be ethical. Ethical behaviour is a necessity to gain trust. Trust will be used as an indicator variable of ethics. Basically, trust is three-dimensional, that is, trust in supplier relationships, trust in employee relationships and trust in customer relationships. In such a situation, the entire stakeholders of the company are taken care of. If the company is able to maintain this trust-relationship with the internal as well as external stakeholders, then we can call that company as an ethical company.

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Trust leads to efficiency of business. Ethics is all about developing trust and maintaining it fruitfully so that the firm maintain good reputation. Lack of ethics would lead to unethical practises in organizations as well as in personal life. We can point out to numerous examples of companies whose top management are involved in unethical practices, for example, Enron and WorldCom, in 2002 and a host of others including investment bankers Lehman Brothers and Merrill Lynch in 2008.

Applying ethics in business makes a good sense because it induces others to ethics in their behaviour. Ethics is important not only in business but also in all aspects of life. The business of a society that lacks ethics is likely to fail sooner or later.

People as investors and members of civil society are concerned about unethical and anti-social development in organizations. The collapse of the Global Trust Bank, the UTI fiasco and the spat between the Ambani brothers caused concern to the investing and general public. A study of business ethics helps us unravel the underlying forces-Why these things happen? What are their implications and what are the options available to solve the problems that arose? Business ethics enables us-

1. To assess the benefits and problems associated with different ways of managing ethics in organizations.
2. To assess the role of business in contemporary society.
3. To improve the welfare of the society by offering a social and political platform for remedial, and sometimes proactive action.

Significance of Business Ethics

“Good business ethics promotes good business”.

This statement is supported by the research findings of some well-known authorities-Raymond Baumhart, Brener & Molander, and Storm & Ruch. It was clear from their findings that only those businesses can develop on a long-term base that conducts activities on ethical grounds. The writer Thomas Donaldson (Ethics in business-a new look) has observed that-“there are some key reasons why business ethics is not a fad and why ethics plays a key role in business.”

- 1) Positive consequences: Business depends on the approval of the society, acceptance of rules, mutual trusts and confidence. Prof. Robert day writes-“when ethical conduct is displayed, it puts some kind of trust and confidence in relationship.” So business with ethics always leads to positive consequence.
- 2) Goodwill of the business and businessman: Good ethical behaviour will increase the goodwill of both business as well as the businessman. Strong public image is a symptom of success in the long run. On the other hand once an organization’s image is tarnished it would have direct consequences on sales, profits, morale or day-to-day running of the business.
- 3) Protection-both sides: if ethical implications are there in organization businessman act more sincerely and the level of commitment would be higher. Ethics protects people in dealing with each other. Good ethics is sound business insurance.
- 4) Self-satisfaction: In the dynamic world, businessmen are seeking self-satisfaction, mental relief, free from anxiety, release tension. To attain the inner satisfaction certain people consider only good ethics can promote good business. As a businessman is first a member of the society than a businessman, so some do not

implement a decision, which stands on unethical ground because it wouldn’t provide the satisfaction to their sub-conscious mind.

Case Study of Satyam Computer Services Limited A Brief History

Established on 24 June 1987 by B. Ramalinga Raju and his brother-in-law, D.V.S. Raju, Satyam Computer Services Limited (SCSL) was incorporated in 1991 as a public limited company. In a short time, it became a leading global consulting and IT- services company spanning 55 countries. During its heyday, it was ranked as India’s fourth largest software exporter, after TCS, Infosys and Wipro, and was one of the few Indian IT services companies listed on the New York Stock Exchange. Satyam acquired a lot of businesses and expanded its operations to many countries, and signed MoUs with many multinational companies in the early 2000s. In 2005, it acquired a 100% stake in the Singapore-based Knowledge Dynamic and 75% stake in London-based Citisoft Plc. Satyam was a company on the fast track to success and earned for itself a name in consulting in several key areas, from strategy to implementing IT solutions for customers.

What Went Wrong With Satyam?

The success-run of the company was halted rather abruptly in early January 2009, when Satyam promoters resolved to invest the company’s funds in buying stakes for an amount equivalent to USD 1.6 billion against their book worth of only USD 225 million in two firms, Maytas Properties and Maytas Infra Limited, founded by chairman Ramalinga Raju’s sons. In response to the board of directors’ decision that such a move would amount to misuse of shareholders’ funds, the company’s promoters said that the decision did not call for the approval of the stockholders. However, a backlash in the market prompted the promoters to beat a hasty retreat. On 7 January 2009 Ramalinga Raju confessed to massive fraud leading to the company’s stock crashing by more than 80 % on a single day. Raju then resigned as the chairman of Satyam after admitting to major financial wrongdoing. In the next two days, the government of India arrested Raju and his brother and dissolved the Satyam board.

Why Did Raju confess to the crime suddenly?

It now appears that he was forced to make a confession as a result of whistle blowing by one of the company’s former associates. According to a 14000 page report of the SFIO submitted to the government, an ex-insider, claiming to be a former senior executive in Satyam associated with its contract with the World Bank, under the pseudonym of Jose Abraham, acted as the whistle-blower. This person had written to Krishna G. Palepu, one of the company’s independent directors, on 18 December 2008-a day after Raju was forced to abort to abort Satyam’s plans to buy the two family-owned companies-which Satyam did not have any liquid assets, and this fact could be independently verified from its banks. This information spread like wildfire with Palepu forwarding the e-mail to the other directors and key people. SFIO’s attempts to establish contact with Jose Abraham failed. However, on the basis of the SFIO report, criminal action was against Raju, Rama Raju and Srinivas and two other company finance managers. According to the investigation report, the falsification of the company’s accounts began in the financial year 2001-02 after there was

an informal meeting between Ramalinga Raju, his brother Rama Raju and Srinivas, apart from G. Ramakrishna.

Insider Trading

Satyam investigators have uncovered 'systemic' insider trading in SCSL. Investigation into the multi-billion fraud in Satyam by the Andhra Pradesh police and central agencies have confirmed that the promoters had indulged in insider trading of the company's shares to raise money for building a large land bank.

In its efforts to revamp the company, Mahindra Satyam has appointed Vineet Nayyar, the erstwhile vice chairman as the whole-time director and the chairman of the company. It has also appointed former SEBI Chairman, M. Damodaran and Gautam Kaji as additional non-executive directors who will be members of the audit committee. The company had further selected Deloitte Haskins and Sells as the firm's statutory auditor for fiscal year ended 31 March 2009 as well as fiscal year ended 31 March 2010. But the scale, magnitude, the reach and impact that the Satyam scam had created is unparalleled in the corporate history of India, and as some keen corporate observers point out, the world itself. There is a perception that most Indians, especially the first generation promoters, hardly make a distinction between a proprietary enterprise and a public limited company in terms of their rights and privileges and the corresponding responsibility. It is a fact that a vast majority of Indian corporations are controlled by promoter families which, while owing a negligible proportion of share capital in their companies, rule them as if they are their personal fiefdoms. It is not our case that there are more crooks in the Indian corporate world than found elsewhere, but the overall system here is so conducive and even attractive for them to flourish, rather than make lives difficult for them to continue their trail of crimes.

Conclusion

Business ethics provides guidance regarding the expectations of the community, principles of morality, consequences & complications of their actions, etc. Hence, business ethics are extremely needed for well-being of organization as well as community as whole.

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